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## THE CRISIS BEHIND THE CRISIS: IN SEARCH OF NEW MODEL OF DEMOCRACY

A CRISE POR TRÁS DA CRISE: EM BUSCA  
DE UM NOVO MODELO DE DEMOCRACIA

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More than four years into the Great Recession of 2008, despite improved unemployment rates (though still at historic highs near 8 %) and the reelection of President Barack Obama, the recovery lags badly and the economy totters on the edge of collapsing anew. Painful austerity measures in Europe, contemplated Chinese economic retrenchment, and the possibility of either plunging over a seemingly ever-present “fiscal cliff” of drastic automatic budget cuts or locking into a debt-reduction deal that could stall even the weak recovery, threaten economic destimulations that could drag the world economy back into the vicious cycle of debt and dampened demand that could mean widespread and longlasting economic pain for people around the world.

### INTRODUCTION

More than four years into the Great Recession of 2008, despite improved unemployment rates (though still at historic highs near 8 %) and the reelection of President Barack Obama, the recovery lags badly and the economy totters on the edge of collapsing anew. Painful austerity measures in Europe, contemplated Chinese economic retrenchment, and the possibility of either plunging over a seemingly ever-present “fiscal cliff” of drastic automatic budget cuts or locking into a debt-reduction deal that could stall even the weak recovery, threaten economic destimulations that could drag the world economy back into the vicious cycle of debt and dampened demand that could mean widespread and longlasting economic pain for people around the world.<sup>1</sup>

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<sup>1</sup> One study, cited by the Congressional Budget Office, estimated that the implementation of automatic across-the-board budget cuts slated for February, 2013, could cost the American economy 2.14 million jobs and increase the unemployment rate by 1.5% (Blow, 2013).

Although the crisis is global, the United States is clearly its epicenter, and the failure of the US government to effectively respond to the crisis since 2008 hints at the underlying political foundations of an overtly economic crisis. Many voters in the US blamed President Obama's policies, including some prominent critics to the left of the administration (Krugman, 2012), fueling a stronger-than-warranted challenge from a weak candidate leading an otherwise unappealing Republican Party. The inability of the administration to lead vigorously in the face of intransigent Republican opposition, however, signals that the problem is deeper than misguided or timid policies, however. Centrist political scientists Thomas Mann and Norman Ornstein (2012) have recently departed radically from the tradition of mainstream political science of justifying and rationalizing US political institutions; in warning readers that the crisis of US politics is actually "worse than it looks," Ornstein and Mann defy the journalistic mania for "balance" by squarely blaming primarily the extremism of the Republican Party for the inability of Washington to resolve social and economic issues, but they also note that the combination of tightly ideological, almost European-style parliamentary parties and US political institutions designed to slow government action and check policy initiatives has led to a situation where the government is simply unable to respond effectively to the issues of the day, including severe economic crisis. US politics has arrived at an impasse without an exit.

Moreover, the world-wide and long-enduring nature of the crisis itself indicates that the Great Recession is more than the usual cyclical crises endemic to capitalism, but instead is a structural crisis rooted in our contemporary economic institutions. The crisis of 2008 began as a bursting of the housing market bubble in the US, reflecting the huge household debt level that had been sustaining consumption since the 1980s when income levels for all but the top income categories began to stagnate. When housing prices leveled off and variable rate mortgages kicked in, the debts came due and the mortgage market crashed. Because deregulated financial institutions had aggressively bought up and liquidized mortgages in speculative investment vehicles, the housing crisis quickly morphed into a financial crisis, bringing some of the world's largest banking and investment houses into bankruptcy. When government stepped in to bail out the banks, and the US auto industry, with massive transfusions of government cash, the costs, added to years of waging wars without paying for them and escalating entitlement programs matched with tax cuts, jolted public debt to new heights. The efforts to cope with the crisis revealed the interlocking nature of the dilemmas faced. Families tried to cope by lowering their indebtedness, but in the aggregate this merely undercut consumer demand. State governments laid off thousands of public employees and cut expenditures, ironically offsetting almost exactly the stimulus plan passed early in the Obama administration. In Washington, Republicans and Democrats agreed with the need for deficit reduction, but wrestled over the tax increases and spending cuts necessary for moving the budget toward balance, while most economists warned that prioritizing short-term deficit reduction risked inducing another deep recession by weakening demand in a still-struggling recovery.

These dilemmas reveal the structural dimensions of the problem. What is at stake is more than policies for recovery but a choice, and possibly a change, of our economic model, of how we are to organize our productive activities. To analogize the economy to a car (an appropriate metaphor since cars are the motors of contemporary economies), we face not simply a question of who is going to drive the car and how fast, but rather what type of car will we drive (a Cadillac or a Ford, or more likely a Toyota) and where we are going to go.

Thus, underlying the economic crisis is a deeper series of problems that should be considered, and labeled, political for three reasons. First, the economic crisis of 2008 was caused in large part by the failed Bush administration policies, having their roots in the right turn in American politics led by Ronald Reagan in the 1980s, but the inability of the Obama administration to cure the crisis US signals the profound failure of US political institutions. Second, to resolve the crisis will require the reconstruction of more adequate institutions, both political and economic, which in turn will require intense political struggles. And third, the choices raised in reforming our institutions call into question the currently dominant model of democracy and put the search for a deeper understanding of democratic practices squarely on the political agenda.

## **1. REGULATION THEORY AND SOCIAL STRUCTURES OF ACCUMULATION**

The current economic crisis, and its intimate connections with social and political institutions, is illuminated by regulation theory, school of economic analysis originating in France but with related American variants.<sup>2</sup> The fundamental approach of the regulation theorists fits the current economic and political conjuncture well: unlike orthodox capitalist economists, who emphasize the tendency of market economies to equilibrium and the long-term trend of stability of capitalism - a position obviously refuted by the events of 2008, although remarkably difficult to lay to rest (Quiggin, 2010) - regulation theory recognizes the conflictual and crisis tendencies in capitalism. Departing from orthodox Marxist theories, however, regulation theory does not foresee the ultimate collapse of capitalism in every periodic crisis (Tickell and Peck, 1992). Rather, regulation theorists describe a capitalism that passes through long waves of economic cycles, lasting roughly a generation of forty to fifty years, with periods of prosperity alternating with epochs of crisis, each lasting roughly half of the underlying cycle, or of approximately twenty-five years. In this view, periods of crisis do not signify the final collapse of capitalism but rather basic structural failures that evoke radical reforms that are necessary for the restoration of successful functioning of capitalism, similar to the way periodic forest fires, far from destroying the forest, are necessary for its ongoing health. The reformed capitalism that emerges from crises periods, however, is not the same as the pre-crisis capitalist system, reflecting as it does the significant modifications necessary to sustain the economy and induce another period of prosperity (McDonough, 2008). Thus the economy of the New Deal was not the same capitalism of the 1920s anymore than today's economy is the same capitalism that dominated after WWII.

Regulation theories do not have a consensus on the causes or rhythms of long waves, nor do they agree on what the current configuration of capitalism consists of or where we stand in terms of periodization of waves. For example, is the current prolonged crisis a symptom that the post-Fordist regime of accumulation is taking an unusually long time to establish itself and realize the normal period of prosperity, or does

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<sup>2</sup> Some of the more prominent French theorists are Miguel Aglietta, Alan Lipeitz, Robert Boyer, with Bob Jessop serving as both a theorist in his own right and the most prominent purveyor of regulation theory in English. American economists, mostly associated with the University of Massachusetts at Amherst, such as Samuel Bowles, Herbert Gintis, David Gordon, Richard Edwards did pioneering and somewhat parallel work, built upon by David Kotz, Michael Reich, David Neilson, and other economists publishing much of their work in the Review of Radical Political Economics.

the current crisis represent the dissolution of post-Fordism, expressed in its political variant as neoliberalism, indicating that we are about to enter a new epoch of experimentation and exploration in search of neoliberalism's replacement regime. This question itself rests on the view of modes or regulation or social structures of accumulation (defined below): do regimes of accumulation always enjoy a period of profit and growth before breaking down, in which case post-Fordism would still seem to be in the installation phase? or alternatively, instead of social structures of accumulation working, almost it seems by definition, by virtue of their function, during the initial establishment of new regimes, do they sometimes function only rather ineffectively, in which case post-Fordism, despite never having enjoyed a "golden era" like Fordism after WWII, might already be entering its breakdown phase (Neilson, 2012; O'Hara, 2003; Kotz, 1990).

The problems of internal differences within regulation theory is exacerbated by inconsistent use of terminology in describing and defining concepts. The most basic concept is captured by the term regime of accumulation, but French theorists Lipeitz and Aglietta mean slightly different things by this term. Both use the term to focus on the economic, productive activities of a society, but Lipeitz limits the term to cover strictly economic phenomenon, while Aglietta uses it in a broader sense to include the mode of regulation (Kotz, 1990). Regulation theorists' main contribution is exactly the focus on the mode of regulation, the social and political and even cultural institutions necessary to assure the functioning of the regime of accumulation so that economic processes can work to produce profits and economic growth. According to regulation theory, capitalist productive processes are fraught with problems, rather than functioning smoothly as a "natural" system as orthodox capitalist economists often claim. The various sources of economic contradictions and tensions vary by author, with the French regulationists, like Marx, emphasizing the class conflict inherent in capitalism, while the American economists, more in a Keynesian vein, stress the disjunctions between savings and investments that can induce a much less vigorous economy in practice as opposed to the market-clearing equilibrium posited by orthodox capitalist theorists (McDonough, Kotz, and Reich, 2010). The main contribution of the American economists to this theory has been to specify and describe more concretely the functioning of the mode of regulation, or in their terms, social structures of accumulation. Such structures include, for example, credit, education and training, property rights, fiscal and monetary policies, labor and employment law, the law of contracts, and even the cultural phenomena such as the mass media and religion.

Aside from the fundamental point shared by these theorists that economic activity requires socio-political direction and regulation to succeed, the great hypothesis of the school is to assert that disjunctions between regimes of accumulation and modes of regulations/social structures of accumulations are the principal source of dynamism in capitalist development (Ruccio, 1989). When social structures of accumulation function effectively, the regime of accumulation will also function well, producing profits of capitalists and economic growth for society. These periods of prosperity, however, have limited durations and are destined to give way to crises, when the institutions of social accumulation no long fit comfortably with the economic activities of that particular model of capitalism. This disjunction can occur for any number of concrete historical reasons, but for one reason or another, social structures of accumulation have an inevitable tendency to become inadequate to resolve the conflicts and contradictions of capitalist regimes of production. More work is needed by regulation theorists to explain the regular failure of modes of regulation - some sort of middle level theory of the life cycle of

institutions that would bridge the gap between sweeping generalizations about the inevitable collapse of social structures of accumulation and very specific theories of the collapse of specific is needed. At a very general level, however, there is a sense that social structures of accumulation that were effective at resolving the problems that initially plagued new regimes of accumulation and helped inaugurate waves of prosperity are turned toward resolving past problems and cannot successfully handle the new challenges that inevitably (given the theorized contradictory nature of capitalist production. The regime of accumulation enters into a crisis at this point, necessitating experimentation and exploration for new economic processes and corresponding new socio-political institutions capable of sustaining a new regime of accumulation, so that the crisis can be overcome and production and prosperity can be restored. Construction of new social structures of accumulation, however, normally takes substantial experimentation and time and generally is accomplished only with prolonged and intense social conflict, as groups seek advantages and protections in the configuration of social modes of regulation (Gordon, Edwards, Reich, 1982).

Given this overarching hypothesis of capitalist development as waves of prosperity alternating with periods of breakdown, the pattern of capitalist development is hypothesized to be somewhat regular. First a period of relatively stability and prosperity reigns, normally for almost twenty-five years. Then, either failures within these social structures of accumulation or a mismatch between these social structures of accumulation and the regime's economic processes means that the contemporary social structures of accumulation are inadequate to regulate and support the continuing smooth functioning of that regime of accumulation, ushering in a period of experimentation, struggle, and eventual reconstruction of new social structures of accumulations and perhaps remodeled processes of production - resulting in a new regime of accumulation. Thus capitalist development is neither an a historical utopia of equilibrium and stability, as posited by orthodox economists, nor a system rushing rapidly downhill to inevitable final collapse, as eternally "optimistic pessimists" in the Marxist camp allege, but rather a somewhat cyclical<sup>3</sup> succession of regimes of accumulation, all capitalist with shared basic characteristics such as private ownership of the means of production, production for profit, and labor based on waged employment, but varying substantially within this fundamental framework as to how the capitalist production processes actually take place.<sup>4</sup>

Edwards, Gordon, and Reich (1982), in the premier work on social structures of accumulation, describe the development of the U.S. economy using a regulationist approach. In their sketch of American economic history, capitalism took root in the U.S. in the 1820s, establishing a regime of small-scale, individual capitalism that lasted until about the 1870s. This was a regime of accumulation based on direct, individual ownership (largely agricultural and small crafts), intense market competition, and

<sup>3</sup> This leads to a criticism of regulation theory that it is almost deterministically cyclical in its view of history. This criticism seems particularly valid as long as a theory of institutional life cycles is lacking.

<sup>4</sup> Presumably, to the extent they are still influenced by Marx, regulation theorists would posit a long-term tendency to collapse of capitalism, that the series of solutions provided by successive social structures of accumulation are simply temporary "fixes" that do not succeed in eliminating the contradictions that eventually doom the capitalist mode of production. The focus, and contribution, of regulation theory, however, is not on the ultimate destination of capitalist development, but rather the series of reforms and restructurings that produce historical variation among types of regimes of accumulation, all within the mode of capitalist production.



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laissez-faire government policies. By the 1880s, this model of capitalism had entered into crisis, challenged by the emerging forms of corporate large-scale property and production and their tendency to monopolistic control over productions (trusts), combined with political corruption and favoritism. This regime of corporate capitalism eventually met its demise with the Great Depression, to be replaced by a more egalitarian welfare-state regulated by an active state pursuing domestic policies to stimulate demand and smooth over the business cycle (a la Keynesian theory) and aid those unable to thrive in the marketplace. This model was supported by huge corporations, who dominated national markets as oligopolies, largely freed from intense competition and able to sustain both decent wages for their workers and pay the high taxes necessary to fund the welfare state. This post-Depression model, however, met its match with the stagnation of the 1970s, faltering for various reasons and giving way to the neoliberalism of recent times - a model rooted in multinational corporations operating and competing in a globalized economy and mandating a reduced role for states both in terms of regulating corporate behavior and supporting populations with domestic welfare policies. A closer look at the last two regimes of accumulation reveals much about the current crisis.

## 2. FORDISM

The Great Depression spelled the end for unregulated or Gilded Age corporate capitalism, as the New Deal put into place a system of state-regulated capitalism that came to full fruition only after the experience of state-corporate cooperation in the war effort against Fascism (Mills, 1956). Fordism was a system of mass production of industrial products, using automated production technology (epitomized by Henry Ford's assembly line) to manufacture standardized products in massive quantities. Cars were the product that epitomized this capitalist model, and the classic story of Henry Ford's Model T, a cheap standardized car manufactured for the mass consumption model that made autos a middle class machine, captures the essence of Fordist production in mass: Henry Ford is supposed to have quipped that customers could buy any color of Model T their hearts desired . . . as long as it was black.

The production of great quantities of affordable products, however, required a mass market of consumers who could, in fact, afford to purchase the large supply of products produced. Lacking this, Fordist production would have ground to a screeching halt (as it had, in effect, during the Great Depression) for lack of demand, lack of a market of consumers to buy the fantastic output of large-scale production. Consumption in mass presupposed a population with reasonable levels of income and this strong consumption was supported through several interlocking and compatible private practices and government policies. First, government used monetary and fiscal policy to boost demand and sustain prosperity. Second, domestic welfare policies helped ensure that enough people had sufficient income to keep private demand high. Finally, with government support, unions won grudging acceptance by large corporations who realized that paying workers enough to buy their products was good business. About one-third of the workforce was unionized, and their influence on pay and benefits spilled over into non-unionized areas of the economy and their political support was an important pillar of Keynesian welfare policies.

The result is still celebrated as the "golden years" of the American economy, or what Robert Reich (2007) calls "democratic capitalism." In retrospect, the period from WWII until the mid-1970s was supported by various implicit social pacts, in

effect creating a network of social structures of accumulation, that supported this era of prosperity. Bowles and Gintis (1982) specify three key pacts.

1) a pact between labor and capital, the so-called "Treaty of Detroit" (so named after the city that produced the bulk of the prototypical product of the era, automobiles). The auto industry, like other heavy industries in the US during the 1930s, had been the scene of bloody battles as workers sought to unionize, but after WWII, auto corporations recognized unions and granted significantly high levels of salaries and benefits in return for a union concession to leave questions of the organization of production to corporate management.

2) a pact between capital and citizens, resulting in the establishment of a welfare state. Although the U.S. version was a pale reflection of the stronger European welfare state, relying much more heavily on private provision of benefits (e.g., private pensions, health insurance, unemployment assistance, etc.<sup>5</sup>), the government undertook the task of assuring prosperity by managing the economy through Keynesian fiscal and monetary policies as well as supporting aggregate demand by aiding the worst-off citizens who received insufficient income through the private labor market.

3) "Pax Americana," which, far from being an era of peace, involved the U.S. in constant warfare of the preparation for war, both hot and cold. The resulting astronomical expenditures on armaments constituted a version of "military Keynesianism" that provided both public stimulation and investments to keep the economy growing.

The so-called Golden Era was not equally beneficial for all portions of the population. The unorganized, especially ethnic minorities, women, and the poor, were largely excluded from the primary economy; they were either unemployed or employed in the secondary economy consisting of non-unionized jobs with worse working conditions, lacking in benefits, and earning less pay, as well as offering less stability and opportunity for advancement. And much of the so-called Third World, rather than benefited, was exploited at best and the scene of great power intrigue and proxy wars at worst. Even excluded groups, however, to some extent benefited indirectly from the patterns established by the primary economy in the core countries, and for those core workers, the benefits represented a stark contrast from the epoch of depression. From WWII until the mid-1970s, the average worker's family income doubled, and most core workers also enjoyed stable lifetime employment with the same company and a career premised on an implicit contract offering an internal career ladder presenting opportunities for advancement. However stifled in individuality, the "Organization Man" (Whyte, 1959) enjoyed hitherto unheard of security and prosperity.

<sup>5</sup> Cf. Jacob Hacker (2011), who argues that the U.S. welfare state is actually more robust than usually recognized because many benefits are relatively less visible because privately provided. This private welfare state is itself a measure of the strength of American unions, their legacy of "voluntarism," and their success in winning member benefits through the capital-labor accord. Seen from another angle, however, this truncated public aspect of the American welfare state reflects the strength of capitalist ideology and weakness of labor and the left (Archer, 2010). For the largely unnoticed but decisive role played by the South in manacled the development of a full-blown European-style welfare state, see Cochran (2001).

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Fordism, however, encountered severe difficulties beginning in the 1960s, and by the mid-1970s had entered into a prolonged crisis. Many factors contributed to the demise of Fordism, but several stand out. Most frequently cited was the return of international competition. Far from being new, globalization represented a return to capitalist internationalism that the Depression and two world wars had temporarily interrupted. For U.S. corporations, renewed competition, especially from the defeated states of Germany and Japan, meant an end to the comfortable national oligopolies they had enjoyed, making it difficult to pass on the costs of high wages and high taxes to consumers, who could now buy cheaper foreign products, and exerting pressure to break with the pacts with unions and citizens to support higher incomes and expansive government policies. From the perspective of public finance, this squeeze on corporate profits generated a “fiscal crisis of the state,” (O'Connor, 1982) as ever more active and expensive policies were necessary to support Fordist production, but states found it increasingly difficult to finance these programs as corporations and taxpayers generally rebelled against higher taxes. The result was stagflation, simultaneous unemployment and inflation, which Keynesian policies seemed unable to cope with successfully. The 1960s also saw growing agitation from groups excluded from the Fordist pacts, as minorities, the poor, and women pressed for entry into primary employment and equal wages. The Third World witnessed numerous wars of national liberation which limited multinational options for exploiting their labor and raw materials, and the budding environmental movement brought to light just how squarely mass industrialism rested on the unlimited exploitation of finite nature. All of these developments - international competition, the fiscal crisis of the state, and emerging social movements - reduced corporate profits, the motor of capitalist growth, causing both a crisis in Fordism and setting off a search for a new model of capitalism.

### 3. TOYOTISM

The restructuring of the economy lacks the clear outlines of Fordism, as reflected in the label of “post-Fordism” often given to the search for an alternative economic model in the latter quarter of the twentieth century (with competing labels of neo-Fordism and Toyotism). If the watchword of Fordism had been stability, the slogan of attempts to reinvigorate the economy was “flexibility”. The economic center of gravity shifted from manufacturing to services and retail, and production was transfigured from mass to batch production. Corporate organization itself was reconfigured to gain more flexibility, as corporations “deverticalized” by sloughing off divisions and outsourcing functions as well as “flattening” the managerial hierarchy, often by “democratizing” work by devolving more decision-making responsibilities further down the chain of command. The label Toyotism reflected the increasing popularity of Japanese style management techniques, including just-in-time and lean production techniques and participatory management, e.g., quality circles. Employment itself became more flexibilized, with increased reliance on outsourcing and more contingent forms of employment. Lifetime careers were replaced by free agents who expected to, and did, switch employers and even careers many times in the course of a lifetime of employment.

The differences between fading Fordism and the emerging outlines of Toyotism are starkly contrasted by comparing the prototypical Fordist corporation, General Motors, with the template (Lcihtenstein) for Toyotism, Wal-Mart:



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|                       | <u>General Motors</u>    | <u>Wal-Mart</u>       |
|-----------------------|--------------------------|-----------------------|
| Activity              | Manufacturing            | Retail                |
| Product               | Cars                     | Market                |
| Consumer items        | National                 | Global                |
| Competition           | Oligopoly                | Intense               |
| Social policy         | corporate citizenship    | rejects corporate     |
| Social responsibility |                          |                       |
| Headquarters          | Detroit, Mich (rustbelt) | Benton, Ark (sunbelt) |
| Corporate culture     | Yankee capitalism        | Cowboy                |
| capitalism            |                          |                       |
| Employment            | Unionized                | Non-unionized         |
| Ave. salary           | \$64,000/year            | \$17,500/year         |
| CEO/Ave. employee     | 40:1                     | 900:1                 |

The last three characteristics are especially revealing; with the diminished employee power of a non-unionized workforce, Wal-Mart workers earn far less than their Fordist GM counterparts did. Instead, comparing CEO to average worker salaries, the “flexibilization” of Toyotism can be seen as resulting in not merely a restructuring of production but also a massive redistribution of wealth from the bottom up.

#### 4. NEOLIBERALISM

The policies and politics that have accompanied, and to some extent produced, Toyotism are often labeled neoliberalism. David Kotz (2009) provides a useful summary of the elements of the neoliberal governance that replaced the liberalism of the welfare state epoch:

- 1) deregulation of business and the financial sector;
- 2) privatization of formerly state-provided services (including even aspects of the armed forces);
- 3) displacement of prosperity as the priority of economic policy in favor of debt reduction and prevention;
- 4) dramatic reduction of welfare-state expenditures (including popular entitlement programs);
- 5) tax relief for companies and upper-income taxpayers;
- 6) weakening of unions;
- 7) increased use of contingent forms of employment;
- 8) strong competition;
- 9) adoption of market rules to internal corporate decisions and practices, for example, in paying CEOs high, competitive salaries.

One might add to the list exorbitantly high (especially in light of the end of the Cold War) expenditures on arms and policies of repression, both global and domestic (for example, the war on drugs and the unconscionably high rate of incarceration in the U.S.).

David Harvey, in his *Brief History of Neoliberalism* (2005) argues that these neoliberal policies did not aim so much at reviving economic growth as they constituted a political project of the capitalist class with the object of restoring class power and thus enabling higher profits. He views neoliberalism's program as nothing less than a counter-offensive by business against the gains of working classes worldwide during the Fordist era. Beginning with the famous memo by Lewis Powell to the U.S. Chamber of Commerce, Harvey details the steps taken to establish neoliberalism as the reigning idea of the late twentieth century. Tactics such as establishing conservative think tanks, endowing named chairs in universities (e.g., chairs of free enterprise) and law schools (law and economics),<sup>6</sup> research funds and scholarships, public relations and lobbying,<sup>7</sup> and influence in the media.<sup>8</sup> The results bear out Harvey's claim. Economically, neoliberalism's track record is unimpressive. In Latin America, for example, the turn toward neoliberalism in the 1980s produced a "lost decade." In the U.S., productivity stagnated and average wages grew very little, mostly during the less purely neoliberal Clinton administration. As a political project to restore capitalist power and income, however, the results were nothing less than spectacular. Neoliberal governments under leaders such as Thatcher, Reagan, and Bush enjoyed electoral good fortune after decades of marginalization after the collapse of the Gilded Age in the Great Depression, and capitalist income and wealth soared, not because of general economic growth but rather because of the extreme inequality that resulted from neoliberal practices and policies. While the income of the poorest quintile increased only 6% from 1979 to 2005, and the middle quintile's income grew by 21%, the income of the wealthiest 1% grew by 230%. Even among the wealthy, the richest of the rich did noticeably better than the rest; the average after-tax household income of the richest one-hundredth of one percent increased from \$4 million to \$24.3 million, a sixfold growth rate (Hacker and Pierson, 2010, p. 157). In fact, since 1980 the richest 1% have captured 80% of the increased income from economic growth under neoliberalism. By 2007, the portion of income received by the richest 1%, which had fallen to 9% in 1970 during the welfare-state era, had again reached the level that they gained in 1929: 24%. And while the crisis of 2008 hurt the rich along with everyone else, they recovered much more agilely: the richest 1% received a startling 93% of the income generated by the recovery in 2009-10 (Noah, 2012). That the wealthiest prospered so shockingly while the recovery for most Americans languished agonizingly even under a Democratic administration and Congress graphically illustrates what Hacker and Pierson (2010, 2011) assert - that the redistribution of income up the socio-economic scale was not a matter of partisan politics, but rather a class victory for the capitalist elite. As billionaire investor Warren Buffett (2006) recently noted ironically, "There's class warfare, all right, but it's my class,

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<sup>6</sup> Steven Tellis (2008) has analyzed the strategy of the conservative legal movement to rescue what they style the "Constitution in exile," in essence, the pre-New Deal understanding of constitutional limitations on the federal government.

<sup>7</sup> Hacker and Jacob (2010, 176) particularly emphasize this aspect of the business counter-attack, noting that only 175 businesses had corporate lobbyists in Washington in 1971 compared to 2,445 in 1982. Corporate public affairs offices in DC increased from 100 to 500 in the decade from 1968 to 1978, while the number of Political Action Committees for funneling corporate campaign contributions to politicians quadrupled from under 300 to 1,200 in the late 1970s.

<sup>8</sup> Not content to intimidate the media with a savage campaign against "liberal media bias," conservative Rupert Murdoch established Fox News. Although often treated as just another news channel or conservative counterbalance to the liberal channels, Fox actually functioned as the propaganda arm of the conservative movement (McChesney, 2004).

the rich class, that's making war, and we're winning.”

As regulation theory would predict, however, the neoliberal solutions to the problems of diminished profits under stagnating Fordism have themselves been fraught with problems. As Kotz (2009) notes, deregulation led to speculations and economic bubbles, as first technology and then housing first became vastly overpriced, eventuating in the bubbles bursting and leading to the minor recession of the early 2000s and then the Great Recession of 2008. Many if not all of the neoliberal policies such as reduced welfare spending and lowered taxes on the well-off, privatization and deregulation, the weakening of unions and contingent employment, led to dizzyingly high levels of inequality not seen since the Gilded Era before the Great Depression, which in turn undermined the economy. Because the rich save and potentially invest a higher portion of their income while ordinary citizens need to spend their income on necessities, the neoliberal economy is imbalanced and lacks sufficient demand for sustained growth (Noah 2012). The obsession with lowering taxes and reducing deficit offered by neoliberals as the fix-all formula for all economic woes is, ironically, a recipe for economic disaster, as noted by many prominent economists including Nobel-winning economists Paul Krugman (2012) and Joseph Stiglitz (2012).<sup>9</sup>

## 5. THE POLITICAL CRISIS

If neoliberalism led Toyotism off an economic cliff, it has had even worse effects politically because, as most political theorists including the supposedly conservative American Founders have understood, severe economic and social inequality is incompatible with a healthy democracy. Today's levels of extreme inequality threaten to undermine democracy in three fundamental ways:

1) Oligarchy: The huge redistribution of wealth upward in the economic scale created a class of elites that fit the profile of an oligarchy, the few who have giant concentrations of political power to rule disproportionately in their own interest. Winters (2011) has argued that democracies are not automatically incompatible with oligarchies, at least in some policy arenas, and they maintain that this concept of rule by the few wealth and powerful members of society fits the current situation in the United States. They further suggest that “wealth protecting strategies” define the essence of oligarchies' political goals. Policy shifts generated by the neoliberal term certainly fit that description, especially as the 2012 election witnessed, with Citizens United's (2010) removal of legal restraints on campaign finance by corporations, the flooding of campaigns with cash provided by billionaires.

2) Dependency: Democracy is premised on the independent will and judgment of its citizens, but political dependency can be undermined

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<sup>9</sup> The enduring power of neoliberal hegemony, however, could be seen even after President Obama's re-election as Republicans held tenaciously to their rigid ideological formulas and discussion in the media continued to prioritize deficit reduction. This outmoded neoliberal framing of economic policies remained strong even in the face of increasing mainstream professional wisdom that stimulation, not deficit reduction, should top the economic agenda. See the letter of 350 economists to President Obama urging him to resist calls for budget balancing in the face of lagging recovery (“CEOs Wrong,” 2012).

by economic dependency, which worsens in situations of great inequality. As Rousseau (1987) put it, no one should be so rich as to be able to purchase other citizens, nor should any citizens be so poor as to have to sell themselves. With economic power in the hands of a few, the citizenry, as individuals and as a nation, become captive to the economic will of the few and dependent on their beneficence. The direct suggestions of some corporate CEOs as to how their employees should vote in 2012 was merely an explicit manifestation of the underlying problem of economic dependence, which enables the wealthy to avoid democratic persuasion and rely instead on economic coercion of those dependent on their economic grace.

3) Citizenship: At the other end of the spectrum from oligarchy, great disparities can undermine democratic citizenship by eroding the sense of efficacy of the majority. Lacking any sense of being in charge of their own destiny, citizens are less likely to participate,<sup>10</sup> more likely to be fatalistic, and even to bend their will to what they perceive as the will, and inevitable result, of the powerful. If, as Lord Acton teaches, power corrupts, just as surely does powerlessness corrupt (Gaventa 1982).

Thus we come full circle - if politics undermines our ability to respond to economic crisis, and if political choices, and struggles, underlie our ability (or lack of it) to resolve the crisis by building new economic models, it turns out that what is ultimately at stake is nothing less than the future of democracy itself. In the last half century we have moved from what Reich (2007) calls "democratic capitalism" (Fordism) to what he calls "supercapitalism," which, tellingly, omits any reference to democracy. If neoliberalism has produced the greatest recession since the 1930s, it has also spawned the sharpest challenge to democracy since that epoch of totalitarianism. The analysis of the economic crisis of 2008 reveals that the real crisis behind the crisis is that democracy is withering and unless the crisis elicits an explicitly pro-democratic movement in response, the end of democracy with any real substance may be near. Of course the forms and labels of democracy will likely linger to legitimate whatever twisted political forms remain. Sheldon Wolin (2008) has recently analyzed "Democracy, Inc." as a form of "inverted totalitarianism," following in the footsteps of Bertram Gross (1980), who at the dawn of neoliberalism warned of the danger that authoritarianism. Gross argued, however, that authoritarian replacements for liberal democracy in the United States would likely appear not in overt measures of explicit dictatorship, but rather in subtle forms of "friendly fascism." Indeed, we risk seeing the plaintive complaint of Fran Leibowitz turn out to be accurate: "In the Soviet Union, capitalism triumphed over Communism. In the United States, capitalism triumphed over democracy."

## 6. THE POLITICAL STRUGGLE

The end of this history, however, has yet to be written. If regulation theory is applicable to our current situation, it is possible that we are in the midst of a period of crisis and experimentation to reconstruct the mode of regulation that will allow the

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<sup>10</sup> Pateman (1970) contends that a sense of efficacy is the key to political participation, and builds her argument for participatory democracy largely on its ability to instill efficacy among participants, thus becoming self-sustaining.

economy to function smoothly and grow in the next epoch. There is nothing of the nature of an iron law of nature about these cycles or the sequence of economic models that result. The construction of social structures of accumulation is a matter of human ingenuity, and of political struggle.

Interestingly, theories of partisan political cycles seem to concur that we are in a period of potentially significant political creativity. Some political scientists have used a theory of periodic realignments to describe and explain significant and enduring shifts in the development of electoral politics in the U.S. Though often controverted and criticized, this theory of realignment offers an intriguingly regular and revealing periodization of American partisan history, arguing that critical elections occur every generation (roughly every 36 to 40 years) that decisively alter the partisan landscape for a generation to come.<sup>11</sup> The theory posits that in some epochs elections raise issues of such weight and novelty, usually in response to some social crisis such as war or depression, that old partisan solutions no longer provide satisfactory answers, leading voters to detach from their old partisan loyalties in favor of new political identities, or alternatively, a new generation forms partisan identities in modes distinctly different from the previous generation. The result is a dramatic shift in the underlying distribution of partisan identification, the factor thought most influential in determining voting, such that the previous balance of forces between majority and minority parties is upset, not just for an exceptional, or deviating election, but for the next generation of elections. Thus the old pattern of election results is displaced by a “new normal” alignment between the parties, often accompanied by policy, organizational, state, and campaign innovations as well.

Realignment theorists differ on the details (especially the dates when they discern realigning elections as having occurred, especially in the most recent years), but a typical schematic history of realigning elections and periods would be:

1800 - 1828: the demise of the Federalists and emergence of the Democratic Republicans led by Jefferson;

1828 - 1860: a period of close competition in which Whigs and smaller parties contested with Democratic Republicans, alternating in power;

1860 - 1896: the appearance of the Republicans, whose dominance is assured by the North's victory in the Civil War, and the creation of regional-based parties (with the south becoming solidly Democratic);

1896 - 1932: Republican dominance continues as regional parties are consolidated, but within the majority Republicans, surging industrialization unites captains of industry and urban, ethnic workers against rural, agricultural forces;

1932 - 1968: the Great Depression ends 70 years of Republican dominance as voters blame the party of Hoover for the Depression and endorse Franklin Roosevelt and his active state embodied in New Deal policies and institutions for a generation of liberal welfare state politics;

<sup>11</sup> V. O. Key, Jr., is credited with originating the theory of alignment in two articles in the *Journal of Politics* (1955, 1959). Walter Dean Burnham (1970) has provided the classic explication of the concept as a tool for understanding the American political development. For a thorough critique of the very concept of realignment as well as of its application to American political history, see David Mayhew (2002).



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1968 - ? : the demise of the New Deal electoral system as well as policies lacks decisive definition, but by the end of the 1960s splits within the Democratic coalition, especially the desertion of Southern Whites and northern ethnic working class voters, and the displacement of economic issues by social and culture issues, ushers in an era where Republicans seem to enjoy a slight political edge. Alternatively, some political scientists characterize recent American political history as an epoch of dealignment, not realignment, arguing that the partisan loyalties and party organizations that structured previous electoral politics have weakened, resulting in a fluid politics where parties are not only closely competitive but also where results are highly variable and turn on relatively trivial matters rather than great questions of state policy.<sup>12</sup>

Even conceding validity to the theory of realignment, it is unclear whether the U.S. is in a realigning era, although the historical pattern suggests that the country is due for one (since in the past realigning elections have occurred at intervals of 36-40 years, or roughly a political generation). Some analysts saw signs that President Obama's election in 2008 represented a realignment; for example, Morely Winograd and Michael Hais (2008) believed that the attitudes of the Millennial Generation, defined as those born between 1982 and 2003, were so distinct and their methods of social interaction (e.g., by using social media) so innovative that they represented a realigning force in American politics. And indeed, Obama's mobilization of the youth vote and the strong tendency for young voters to vote for Obama and identify with the Democrats, as well as his campaigns innovative use of social media to reach young voters, gave some support to the idea that 2008 could represent a sea change in American politics and not merely another alteration in office so typical of the 1968-2008 era. The failure to solve the economic crisis of 2008 and promote swift recovery, however, resulted not in a landslide endorsement of the Obama administration (as had occurred in FDR's second election in 1936, for instance) but rather a lackluster near tie based on lower voter turnout, including among youths, than in 2008. On the other hand, some political scientists have noted that the real shift in long-term loyalties probably does not occur during the election season itself but reflects reactions to what administrations do in office. Key himself, after proposing a theory of "critical elections," (1955) modified his theory of realignment to include a notion of "secular realignments," (1959) fundamental changes that take a number of years and a series of elections to take hold. It could be argued that it was only after the mobilization of a strike wave in 1934, the stubborn declaration of initial Hundred Days New Deal legislation by the "Nine Old Men" of the conservative Supreme Court, and the second burst of more radical New Deal reforms (Social Security Act, National Labor Relations Act) in 1935 that Roosevelt managed to consolidate his 1932 victory and gain the loyalty of a generation of voters for his future re-elections and those of his Democratic heirs. In light of this analysis, it might be more accurate to suggest not that the U.S. is necessarily in the midst of a realignment or even clearly in a realigning period, but rather that the time is ripe for a realignment whose realization will depend on the actions of not only political leaders but also the potential mobilization of ordinary citizens to press elites for leadership in resolving contemporary problems.

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<sup>12</sup> For example, W. Lance Bennett (1992) has argued that we now have a 3M electoral system based on money, marketing, and media. Others have sought to reconcile the concepts of realignment and dealignment in various ways, for example, arguing that U.S. politics have realigned in to a new party system lacking the clear partisan divisions typical in much of American history, in other words, a realignment into a dealigned party system.

## 7. MODELS OF DEMOCRACY

If we are in a fluid period of potential political realignment, and if what is ultimately at stake is democracy itself, what models of democracy are available to guide the choice of future governing structures? Neither major political party is explicitly proposing models of democracy, nor are general conceptions of democracy being consciously considered in discussions in the public arena. Nonetheless, it is possible to discern divergent views on the subject by abstracting from concrete pronouncements and disagreements.

Despite recent setbacks at the polls, neoliberal ideology still holds sway over much of the American political imagination,<sup>13</sup> offering a vision of democracy that is basically a political version of the marketplace. This neoliberal model is really a slight modification of the version of democracy enshrined as “pluralist democracy” in orthodox political science after WWII and popularly venerated as simply “democracy.” In that model, groups with conflicting interests competed for votes, providing a political system of checks and balances corresponding to the constitutional system designed to diffuse power and protect liberty. As long as the system remained open (free access to organize groups, freedom to compete and publicize programs, free and fair elections), little participation was actually required of citizens, since elites could be counted on to countervail the interests of opposing elites, and thus the public interest would emerge almost as if directed by an invisible hand. Pluralism thus offered an economic model of democracy,<sup>14</sup> but one in which the units were groups, a conception very appropriate for the Fordist era when the dominant social forces were oligopolistic agglomerations such as corporations and unions.<sup>15</sup> In the neoliberal mind, groups and organizations are dissolved into their component parts, individuals, who act politically in a manner parallel to market behavior, that is, rationally, with rationality equated with utility maximization. Thus citizens act as consumers, trying to maximize their utility politically as well as economically. Politicians are political entrepreneurs, and parties are like companies, offering policies as political products and services, with taxes representing the price citizen-consumers must be willing to pay for them. Citizens in fact spend their votes in the electoral marketplace as consumers “vote” their dollars in the literal market, purchasing the desired goods and services. As long as there is free competition among the products offered (competing parties, freedom of association) and abundant information available to guide choices (freedom to campaign, free speech) and free choice as to how votes are spent (right to vote, secret ballot, civil liberties), the magic of the “invisible hand” should produce the public interest even if all the political participants, voters and politicians alike, seek their own personal interests without the first thought to

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<sup>13</sup> The classic findings on American public opinion by Free and Cantril (1967) remain valid, as confirmed by recent surveys reported by Page and Jacobs (2009). Americans tend to respond conservatively to questions posed abstractly (wanting lower taxes, fewer regulations, less government, etc.), but liberally when asked about specific government programs (a tax to support research on alternative energy, regulations to ensure food safety, government scholarships for students, etc.). They are, in Free and Cantril's terms, ideological conservatives but programmatic liberals. With this somewhat schizophrenic structure to public opinion, Democrats are able to win elections by offering concrete programs without challenging the ideological slogans on which Republicans campaign.

<sup>14</sup> One classic statement of the model is a book of exactly that title by Anthony Downs (1957).

<sup>15</sup> John Kenneth Galbraith (1971) famously formulated a theory of the countervailing powers of big corporations, big unions, and big government. The classic theory was provided by Robert Dahl (1956) who called the model “polyarchy.”

how choices affect the common good. Market democracy, like a market economy, thus promises the best of both worlds: minimum burdens on altruism and rationality (considered as something more than utility maximization) in making social choices, yet in asking people only to think of themselves and their immediate and perhaps even irrational desires, the best interests of society are served without explicit efforts to ensure that the common good is protected. This market model of democracy, then, is a "thin" model indeed - not needing widespread participation to function nor requiring much of those who do in fact choose to participate (Barber, 1984).

As appealing as this undemanding version of "citizenship lite" is, critics charge that it represents something close to false advertising as a system claiming to be democratic. If pluralist democracy tended in practice to be an "elite theory of democracy" (Bachrach 1967), its even thinner neoliberal cousin, that counts on the invisible hand of the market to aggregate the individual choices of its unorganized citizen-consumers, is even more remote from the classic notion of democracy as rule of, by, and for the people (Lincoln, 1863). First, the role of citizens is highly limited; their role as choosers is passive, often based on little information, generally made with little practice or skill in choosing (Pateman 1970). Second, the scope of their choice is limited: citizens are presented with choices of someone else's making. Just as owners, not consumers, decide what options to offer in the marketplace, political elites, not citizens, shape the policy options available to the public. In the classical democracy, citizens were the owner of the polity, but in neoliberal democracy, the owners are the elites who decide what policy options to present to the passive public. Third, these political "products" are "sold" to the public, not on the basis of perfect information as economic theory posits but often on the basis of manipulated sales pitches. Elections resemble Madison Avenue campaigns, and the public dialogue is distorted by the same forces that create artificial demand for the glut of consumer products in modern capitalism. As W. Lance Bennett (1992) points out, we have a 3M politics dominated by money, marketing, and media. In this money saturated environment, not all choosers are equal. The democratic requirement of political equality is subverted by a system where elections, and increasingly the public sphere between elections in this era of the permanent campaign, is heavily influenced by wealth. Contemporary campaigns in effect mix economic and political markets as dollars in the form of campaign contributions become as important as votes in determining the outcomes of elections. Given the trends in astronomically escalating campaign costs and contribution in recent years, the narrowly legal technical effect of the 2009 *Citizens United* decision in removing the independent spending limits on corporations has probably had less impact than the symbolic message of the Supreme Court's reasoning that corporations are people and spending money is speech. The estimated \$6 billion dollars spent in the 2012 election reflects that wealthy donors as well as corporations have gotten the message that all stops have been removed and lavish spending to influence elections is now fair game. Not only are unorganized citizens overwhelmed by the influx of money from corporations and their owners, but even organizations that purport to aggregated citizen clout are badly outgunned. For example, corporations outspent unions by a ratio of 15:1 in the 2012 election. Fifth, as powerful as money is in influencing the choices citizens make, it is probably even more potent in determining the choices they do not make, by in effect vetoing some options and keeping some choices off the public agenda in the first place. The political use of wealth represents a powerful means for the "mobilization of bias" that results in "non-decisions," that is, the maintenance of prevailing policies by ensuring that status quo is never challenged (Baratz and Bachrach 1970). For example, just as corporate power has effectively blocked the introduction of alternatives to gasoline

nomination, but neither the President nor his party have offered clear proposals to strengthen the nation's democratic institutions.<sup>16</sup> In fact, it seems unlikely that genuinely democratic reforms will come from the top down led by elites of either party with strong interests in the current dysfunctional political system.

Impetus to move the political system in a more democratic direction seems much more likely to stem from pressure coming from below. Commentators have noted that the Obama administration, absent agitation from activists, is unlikely to move beyond the hegemonic consensus currently stalemating Washington. And this indeed seems to be the historic pattern. For instance, the strike wave of 1934 seems to have been instrumental in propelling President Franklin Roosevelt to move beyond the largely corporatist and restorative legislation initially passed by the New Deal (and struck down as unconstitutional by the Supreme Court), to propose much more sweeping and democratizing bills such as the Social Security Act and the National Labor Relations Act. It appears likely that only popular movements will be capable of compelling political elites to launch more democratic departures. The Occupy movements active in most major US cities in the fall of 2011 might have been a start, before it was suppressed by hostile police forces and political energies largely diverted into the 2012 election. The smoldering remains of Occupy might still provide a spark to a wider, more sustainable popular movement, but for a vibrant, strong democracy, the United States needs its own version of an Arab Spring.

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<sup>16</sup> Although Democrats have resisted some of the more blatantly anti-democratic and highly partisan initiatives proposed and implemented by Republican officials aimed at limiting access to the ballot for constituencies likely to vote Democratic, protecting the vote is the bare minimum required for any model of democracy. A still timid but slightly stronger democratic step would be making the right for workers to organize more realistically attainable, but the Democrats have not devoted real priority to pushing the Employee Free Choice Act that would arguably be a first if minor step toward assuring workers a voice in the workplace.



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